SICO BSC (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

Comprehensive investment services for the Bahrain and GCC securities market		
Commercial registration	:	33469
Board of Directors	:	Abdulla bin Khalifa Al Khalifa *Chairman of the Board and the Investment Committee*
		Hisham Al Kurdi Vice Chairman of the Board & the Investment Committee
		Khalid Jasim Member of the Investment Committee
		Mohammed Abdulla Chairman of Nominations, Remuneration & Corporate Governance Committee
		Khurram Ali Mirza Vice Chairman of Nominations, Remuneration & Corporate Governance Committee
		Dana Raees Member of Nominations, Remuneration & Corporate Governance Committee
		Tala Fakhro Chairperson of the Audit Committee
		Abdulla Kamal Vice Chairman of the Audit Committee
		Naseema Haider Member of the Audit Committee
Chief Executive Officer	:	Najla M. Al Shirawi
Office	:	BMB Centre P.O. Box 1331, Kingdom of Bahrain Telephone 17515000, Fax 17514000
Bankers	:	BBK BSC
Auditors	:	KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2020

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A Year Like No Other

2020 was a year that has redefined our existence. It has redefined the way we work, the way we invest, the way we live, the way we learn, and the way we interact with one another. All of these changes have culminated in a seismic shift, the ramifications of which will continue to be studied for years to come.

The year may have passed but the uncertainty that was brought about by the Coronavirus Pandemic is still very much with us. As we all work to grapple with the impact of this life changing event we should reflect on the lessons learned in 2020 and focus on making sure that we optimize the resources that are currently available to us to ensure the well-being of all our stakeholders, our employees, our clients, our shareholders and our community at large.

I think we can all be very proud of the performance that SICO has delivered in 2020, a year that has brought about unprecedented challenges. SICO has proven that it is an organization with an outstanding amount of resilience in the face of a public health crisis, a massive global recession, major selloffs and the biggest oil crash in decades. In March 2020 alone, emerging economies saw investors pull out a monthly record of USD 83.3 bn in cash. Oil exporting countries in the GCC had to deal with a pandemic coupled with a historic crash in oil prices that saw governments take decisive action to fill in the gaps with austerity measures and debt issuance.

With this backdrop SICO witnessed a sharp 94% y-o-y decline in consolidated net profit from the BD 2.9 million to BD 159 thousand in the first half of the year. Our net investment income during the six-month period recorded a loss of BD 342 thousand in the first half of 2020 compared to an income of BD 3.5 million in the corresponding period of 2019, and our AUMs took a hit reaching USD 1.7 billion, a decrease of 18% from the USD 2.1 billion that we closed out the year with in 2019.

While all of this was naturally attributable to the adverse market conditions that prevailed globally and regionally, management was mindful throughout about finding ways to mitigate the impact of the pandemic.

Fortunately, the diversification of our business model allowed us to tap into alternative sources of income. SICO's first half results were supported by strong aggregate net fee, brokerage and other income, which came in at BD 3.8 million, 18% higher than the same period of the previous year. Brokerage and other income alone reached BD 2.1 million in H1 20, a 71% increase y-o-y. Throughout the turmoil of the first half of the year SICO maintained a strong balance sheet owing to higher cash and bank balances and securities bought under repurchase agreements.

A historic wave of government stimulus packages breathed new life into capital markets during the third quarter with money pouring back into emerging markets and global stocks skyrocketing up to record levels. As markets began to recover our resilience as an organization went on full display.

Despite some negative impact that the external environment had on our full-year results, we still managed to record some significant wins this year with all core business lines delivering commendable performances. AUMs rebounded to reach USD 2.3 billion, an increase of 9% from the USD 2.1 billion posted at the end of 2019. SICO's balance sheet footings increased by 9% during the year to BD 181.8 million, attesting to the team's abilities to adapt and weather even the most challenging of times and to continue creating shared value for our stakeholders.

SICO recorded a consolidated net profit of BD 3 million for the full year 2020 compared to BD 6.0 million recorded at year-end 2019. EPS for the year were 8 Bahraini fils, compared to 16.32 Bahraini fils at the end of 2019. SICO's total comprehensive income for 2020 came in at BD 2.9 million compared to BD 6.8 million posted at year-end 2019.

Our year-end results were not only a product of improving market conditions, they were also a testament to our clients' trust in our proven capabilities and our longstanding position as a leading regional investment house. Our diversified revenue stream together with our strong and liquid balance sheet enabled us to progress further with our strategic plans in 2020, even amid such turbulent times.

As 2021 gets underway, we look forward to our expansion into the Saudi market and our new partnership with Bank Muscat. The fact that we were able to move forward with our acquisition of a 72.7% stake in the Saudi based Muscat Capital, is proof of our forward-looking vision. The acquisition will allow us to capture new business with a full offering of investment banking services in the Kingdom in 2021.

We would like to extend our deepest thanks and appreciation to our outgoing Board Members who have successfully served their tenure and provided us with invaluable insight and direction over the years; Hussain Al Hussaini, Vice Chairman and Executive Director since 1997, representing the National Bank of Bahrain, Fahad Murad, Independent Director since 2011, Waleed K. Al-Braikan, Independent Director since 2014, representing Gulf Investment Corporation – Kuwait, Anwar Abdulla Ghuloom Ahmadi, Executive Director since 2002, representing Social Insurance Organization – Bahrain, Prakash Mohan Executive Director since 2015, representing Ahli United Bank BSC – Bahrain, and Emad Al Saudi, Independent director since 2017, representing Bank ABC – Bahrain.

This year it was also my pleasure to welcome 6 new members to SICO's esteemed Board of Directors. These ladies and gentlemen began their tenure with us in March 2020 and have already provided a tremendous amount of support to SICO's management during this historic year. We look forward to working with them in the years to come.

I would also like recognize and thank our senior management team as well as each and every member of the SICO family for their perseverance during this difficult time. The loyalty and dedication that they have exhibited and their ability to seamlessly transition to a safe work from home environment during peaks in the pandemic is commendable and it is the reason that we have remained profitable and successful.

It remains uncertain what the rest of this year will bring but we are cautiously optimistic that there is light at the end of the tunnel with the expedited rollout of multiple vaccines across the globe. The outlook for emerging markets is promising and we are fortunate to be operating in a region that is still positioned to be one of the fastest growing regions in the world in the coming decade. I think that I speak for the entire Board at SICO when I say that we have faith in the Bank's ability to overcome the external challenges and volatility that remain a part of our day-to-day life. We will keep developing our internal capabilities with investments in people, IT infrastructure and products in a manner that will position us to grow and prosper.

On behalf of the Board and the entire team at SICO we would like to offer our deepest condolences to the Kingdom of Bahrain and the Royal Family on the passing of Prime Minister Sheikh Khalifa Bin Salman Al Khalifa. He will long be remembered for his achievements and contributions to the wellbeing of our country. We would also like to extend our utmost gratitude to the Central Bank of Bahrain and the Bahrain Bourse for their continued support, and we wish to express our thanks and appreciation to His Majesty the King, and His Royal Highness the Crown Prince Salman bin Hamad Al Khalifa, who has just been appointed as Bahrain's Prime Minister. We wish him success in the years to come as we embark on a new journey to rebuild our economy post-pandemic.

Abdulla bin Khalifa Al Khalifa
Chairman of the Board

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

SICO BSC (c)
P.O. Box 1331
Manama
Kingdom of Bahrain

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of SICO BSC (c) (the "Bank") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as modified by the Central Bank of Bahrain.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation and existence of quoted equity, debt and fund investments
(refer to the accounting policies in note 4(d) and (e) of the consolidated financial statements)

Description	How the matter was addressed in our audit
The Group's portfolio of quoted equity, debt and fund investments at fair value make up 18% of the Group's total assets (by value) and is considered to be one of the key drivers of operations and performance results. We do not consider these investments to be at high risk of significant misstatements, or to be subject to significant risk of judgement because they comprise liquid, quoted investments. However, due to the materiality in the context of the consolidated financial statements as a whole and the impact on the Group's performance, they are considered to be one of the areas which has the greatest impact on our overall audit strategy and allocation of resources in the planning and completing our audit.	Our procedures included: ▪ Agreeing the valuation of investments in the portfolio to the externally quoted prices; ▪ Agreeing investments holding in the portfolio to independently received third party confirmations; and ▪ Evaluating the adequacy of the Group's disclosure by reference to the requirements of the relevant accounting standards.

Other information

The board of directors is responsible for the other information. The other information comprises the annual report but does not include the consolidated financial statements and our auditors' report thereon. Prior to the date of this auditors' report, we obtained the Chairman's report which forms part of the annual report, and the remaining sections of the annual report are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as modified by the Central Bank of Bahrain, and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the board of directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- Conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other regulatory requirements
As required by the Commercial Companies and Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the Chairman's report is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law, the CBB and Financial Institutions Law No. 64 of 2006 (as amended), the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

The engagement partner on the audit resulting in this independent auditors' report is Salman Manjlai.

KPMG

KPMG Fakhro
Partner registration number 213
25 February 2021

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2020 Bahraini Dinars '000

	Note	2020	2019
Assets			
Cash and bank balances	8a	54,393	56,555
Treasury bills	8a	1,127	4,261
Securities bought under repurchase agreements	8b	73,816	51,106
Investments at fair value through profit or loss	9	22,443	20,076
Investments at fair value through other comprehensive income	10	9,723	9,128
Investments at amortized cost		9,953	9,971
Investment property	11b	427	1,915
Fees receivable	12	1,153	3,523
Other assets	13	7,323	8,576
Property, equipment and intangibles	14	1,422	1,671
Total assets		**181,780**	166,782
Liabilities and equity			
Liabilities			
Short-term bank borrowings	15a	7,400	3,770
Securities sold under repurchase agreements	15b	74,406	55,548
Customer accounts	16	34,885	41,340
Other liabilities	17	5,426	6,138
Payable to other unit holders in consolidated funds	7	1,340	622
Total liabilities		**123,457**	107,418
Equity			
Share capital	18	42,849	42,849
Treasury shares	18	(5,322)	(5,322)
Shares under employee share incentive scheme	18	(2,263)	(2,263)
Statutory reserve	19	8,330	8,034
General reserve	20	3,217	3,217
Investments fair value reserve		992	891
Retained earnings		10,520	11,958
Total equity		**58,323**	59,364
Total liabilities and equity		**181,780**	166,782

The consolidated financial statements were approved by the Board of Directors on 25 February 2021 and signed on its behalf by:

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2020 Bahraini Dinars ‘000

	Note	**2020**	2019
Net investment income	21	2,238	4,315
Net fee income	22	3,619	6,271
Brokerage and other income	23	3,229	2,392
Net interest income	24	1,447	1,405
Income from investment property	11a	(101)	233
Total income		**10,432**	14,616
Staff cost	25	(5,146)	(5,651)
Other operating expenses	26	(2,789)	(2,820)
Share of profit of non-controlling unit holders in consolidated funds	7	464	(61)
Allowance for expected credit loss		(2)	(50)
Profit for the year		**2,959**	6,034
Basic and diluted earnings per share (fils)	32	**8.00**	16.32

Abdulla Bin Khalifa Al Khalifa
Chairman

Hisham Al Kurdi
Vice Chairman

Najla M. Al Shirawi
Chief Executive Officer

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2020 Bahraini Dinars '000

	2020	2019
Profit for the year	**2,959**	6,034
Other comprehensive income		
Items that are or may be reclassified to profit or loss in subsequent periods:		
- Net changes in fair value of FVOCI debt instruments	99	358
- Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	20
- Net amount transferred to profit or loss on impairment	-	14
Items that will not be reclassified to profit or loss in subsequent periods:		
- Net change in fair value of FVOCI equity instruments	(140)	402
Total other comprehensive income for the year	**(41)**	794
Total comprehensive income for the year	**2,918**	6,828

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

SICO BSC (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020

Bahraini Dinars '000

2020	**Share capital**	**Treasury shares**	**Shares under employee share incentive scheme**	**Statutory reserve**	**General reserve**	**Investments fair value reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2020	**42,849**	**(5,322)**	**(2,263)**	**8,034**	**3,217**	**891**	**11,958**	**59,364**
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	2,959	**2,959**
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	(41)	-	(41)
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	142	(142)	-
Total other comprehensive income	-	-	-	-	-	**101**	**(142)**	**(41)**
Total comprehensive income for the year	-	-	-	-	-	**101**	**2,817**	**2,918**
- Transfer to charitable donation reserve	-	-	-	-	-	-	(60)	(60)
Transaction with owners recognised directly in equity:								
- Transfer to statutory reserve	-	-	-	296	-	-	(296)	-
- Dividends paid	-	-	-	-	-	-	(3,899)	(3,899)
Balance at 31 December 2020	**42,849**	**(5,322)**	**(2,263)**	**8,330**	**3,217**	**992**	**10,520**	**58,323**

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

SICO BSC (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2020 *(continued)*

Bahraini Dinars '000

2019	Share capital	Treasury shares	Shares under employee share incentive scheme	Statutory reserve	General reserve	Investments fair value reserve	Retained earnings	Total equity
Balance at 1 January 2019	42,849	(5,913)	(1,599)	7,362	3,217	133	9,616	55,665
Comprehensive income:								
Profit for the year	-	-	-	-	-	-	6,034	6,034
Other comprehensive income:								
Net change in fair value of FVOCI instruments	-	-	-	-	-	760	-	760
Net amount transferred to profit or loss on sale of FVOCI debt instruments	-	-	-	-	-	20	-	20
Net amount transferred to profit or loss on impairment	-	-	-	-	-	14	-	14
Net amount transferred to retained earnings on sale of FVOCI equity instruments	-	-	-	-	-	(36)	36	-
Total other comprehensive income	-	-	-	-	-	758	36	794
Total comprehensive income for the year	-	-	-	-	-	758	6,070	6,828
- Transfer to charitable donation reserve	-	-	-	-	-	-	(40)	(40)
Transaction with owners recognised directly in equity:								
- Transfer to statutory reserve	-	-	-	603	-	-	(603)	-
- Dividends paid	-	-	-	-	-	-	(3,085)	(3,085)
- Treasury shares transferred to employee share incentive scheme	-	591	(664)	69	-	-	-	(4)
Balance at 31 December 2019	42,849	(5,322)	(2,263)	8,034	3,217	891	11,958	59,364

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2020 Bahraini Dinars '000

	Note	**2020**	2019
Operating activities			
Net interest received		2,870	2,723
Net (purchase)/ sale of investments at fair value through profit or loss		(2,094)	6,138
Net purchase of investments at fair value through other comprehensive income		(595)	(2,934)
Net sale of investments at amortized cost		18	19
Net decrease in investment property		1,401	40
Net (decrease)/ increase in customer accounts		(6,455)	18,205
Securities bought under repurchase agreements		(22,710)	(9,179)
Securities sold under repurchase agreements		18,858	12,975
Dividends received		524	425
Net income from investment property		(101)	233
Movement in brokerage accounts and other receivables		10,690	999
Movement in other liabilities		(349)	1,596
Payments for staff and related expenses		(5,509)	(4,918)
Payments for other operating expenses		(2,487)	(1,615)
Net cash (used in) / generated from operating activities		**(5,939)**	24,707
Investing activities			
Net capital expenditure on furniture and equipment		(285)	(929)
Net cash used in investing activities		**(285)**	(929)
Financing activities			
Net increase in short-term bank borrowings		3,630	385
Dividend paid		(3,899)	(3,085)
Contribution/ (redemption) by other unit holders in consolidated funds		1,190	(6,131)
Distribution to other unit holders in consolidated funds		(8)	(9)
Net cash generated from / (used in) financing activities		**913**	(8,840)
Net (decrease) / increase in cash and cash equivalents		**(5,311)**	14,938
Cash and cash equivalents at the beginning of the year		60,841	45,903
Cash and cash equivalents at the end of the year*	8	**55,530**	60,841

* Excludes expected credit loss of BD 10 (2019: BD 25)

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

1. Reporting entity

SICO BSC (c) (the "Bank") is a closed joint stock company registered in Bahrain under commercial registration number 33469 on 11 February 1995 and operates under a wholesale banking license from the Central Bank of Bahrain. On 7 May 2003, the Bank was listed on the Bahrain Bourse as a closed company.

The primary objectives of the Bank are:

- to act as a market maker at the Bahrain Bourse;
- to assist in the development of the securities market in Bahrain by researching and promoting financial instruments and other investment vehicles;
- to arrange the issuance of bonds for developmental and investment purposes;
- to act as investment agents, trustees and intermediaries;
- to establish and manage investment and financial funds and portfolios; and
- to offer financial advisory and underwriting services, such as advising corporations and family businesses on going public and structuring transactions for privatisation programs, mergers and acquisitions.

The consolidated financial statements include the results of the Bank and its subsidiaries, (collectively "the Group").

2. Basis of preparation

(a) Statement of compliance

The consolidated financial information of the Group has been prepared in accordance with applicable rules and regulations issued by the Central Bank of Bahrain (the "CBB") including the CBB circulars issued during the year on regulatory concessionary measures in response to COVID-19. These rules and regulations require the adoption of all International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), except for:

(i) recognition of modification losses on financial assets arising from payment holidays provided to customers impacted by COVID-19 without charging additional profits, in equity instead of the profit or loss account as required by IFRS issued by IASB. Any other modification gain or loss on financial assets are recognised in accordance with the requirements of applicable IFRS. Please refer to note 3 for further details; and

(ii) recognition of financial assistance received from the government and/ or regulators in response to its COVID-19 support measures that meets the government grant requirement, in equity, instead of the profit or loss account as required by the IAS 20. This will only be to the extent of any modification loss recorded in equity as a result of (i) above, and the balance amount to be recognised in the profit or loss account. Any other financial assistance is recognised in accordance with the requirements of IAS 20. Please refer to note 3 for further details.

The above framework for basis of preparation of the consolidated financial statements is hereinafter referred to as 'IFRS as modified by the CBB'.

However, the adoption of the above framework did not have any impact on the Group's reported amounts in the current and comparative periods as the Group's financial assets were not subject to modification.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments at fair value through profit or loss and investments at fair value through other comprehensive income.

Notes to the consolidated financial statements Bahraini Dinars '000

2. Basis of preparation (continued)

(c) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4 (d).

(d) New accounting policy, standards, amendments and interpretations effective from 1 January 2020

Government grants

Government grants are recognised when there is reasonable assurance that the entity will comply with the relevant conditions and the grant will be received. Grants are recognised as other income in profit or loss on a systematic basis as the Group recognises as expenses the costs that the grants are intended to compensate. Grants that relate to the acquisition of an assets are recognised in profit or loss as the assets is depreciated or amortised.

The following relevant amendments to existing standards and framework did not have any significant impact on the Group's financial information.

Description	**Effective from**
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020
Definition of a Business – Amendment to IFRS 3	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
Amendment to IFRS 16 regarding COVID-19 related concession	1 June 2020

(e) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The new standards and amendments to standards are not expected to have a significant impact on the Group's consolidated financial statements.

3. COVID-19 impact

On 11 March 2020, the Coronavirus (COVID-19) outbreak was declared a pandemic by the World Health Organisation (WHO). It has rapidly evolved and continues to affect worldwide. This has resulted in a global economic slowdown with uncertainties in the economic environment. Global equity and commodity markets have also experienced great volatility and a significant drop in prices. The estimation uncertainty is associated with the extent and duration of the expected economic downturn and forecasts for key economic factors including gross domestic product ("GDP"), employment, oil prices, etc. This includes disruption to capital markets, deteriorating credit markets and liquidity concerns.

3 COVID-19 impact (continued)

Authorities have taken various measures to contain the spread including implementation of travel restrictions and quarantine measures. The Government of Kingdom of Bahrain and other governments across the world have announced various economic stimulus programmes ("Packages") to support businesses in these challenging times. The Group and its clients have received some benefits from these Packages to help sustain the impact of the crisis.

The pandemic as well as the resulting measures and policies are expected to have direct and/ or knock-on impact on the Group. Management and the Board of Directors have been closely monitoring the potential impact of the COVID-19 developments on the Group's operations and financial position; including possible loss of revenue, impact on asset valuations, impairment, review of onerous contracts and debt covenants, outsourcing arrangements, etc. The Group has also put in place contingency measures, which include but are not limited to enhancing and testing of business continuity plans including its liquidity requirements. Based on their assessment, management is of the view that the Group will continue as a going concern entity at least for the next 12 months from the date of these consolidated financial statements.

Government assistance and subsidies
Governments and central banks across the world have responded with monetary and fiscal interventions to stabilise economic conditions. The Government of Kingdom of Bahrain has announced various economic stimulus programmes to support businesses in these challenging times. Financial assistance amounting to BD 312 (representing specified reimbursement of a portion of staff costs) received from the government, in response to its COVID-19 support measures, has been recognised as income and captured in the brokerage and other income account line.

Fair valuation
The global capital and commodity markets have also experienced great volatility and a significant drop in prices. The Group's fair valuation exercise primarily relies on quoted prices from active markets for each financial instrument (i.e. Level 1 input) or using observable or derived prices for similar instruments from active markets (i.e. Level 2 input) and has reflected the volatility evidenced during the period and as at the end of the reporting date in its measurement of its financial assets and liabilities carried at fair value. Where fair value measurements was based in full or in part on unobservable inputs (i.e. Level 3), management has used its knowledge of the specific asset/ investee, its ability to respond to or recover from the crisis, its industry and country of operations to determine the necessary adjustments to its fair value determination process.

4. Significant accounting policies

The accounting policies set out below have been applied consistently by the Group to all periods presented in the consolidated financial statements except for the new accounting policy adopted during the year as stated in note 2(d).

(a) Consolidation

(i) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Non-controlling interests ("NCI")

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. NCI of consolidated funds are recognised as liabilities.

4. Significant accounting policies (continued)

(iii) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Functional and presentation currency
Items included in the financial statements of the Bank and its subsidiaries are measured based on the currency of the primary environment in which the entity operates (the functional currency).

The consolidated financial statements are presented in Bahraini Dinars, representing the Group's functional and presentation currency. Some of the subsidiaries' functional currencies are either in US Dollars or denominated in currencies which are effectively pegged to the US Dollars, and hence, the translation of financial statements of the Group companies that have a functional currency different from the presentation currency of the Bank do not result in exchange differences.

(c) Foreign currencies
Transactions in foreign currencies are converted to Bahraini Dinars at rates of exchange prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Bahraini Dinars at the market rates of exchange prevailing at the balance sheet date. Realised and unrealised foreign exchange profits and losses are included in other income.

(d) *Critical accounting estimates and judgments in applying accounting policies*

(i) Estimates
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Valuation of financial instruments
The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management.

(ii) Judgments
Classification of investments
In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as at fair value through profit or loss, amortised cost or fair value through other comprehensive income. The classification of each investment reflects the objective of the Group's business model in relation to each investment and is subject to different accounting treatments based on such classification.

Determination of control over investees – Investment funds
The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager.

4. *Significant accounting policies (continued)*

(e) Investment securities

(i) Classification

Investments at fair value through profit or loss comprise trading securities and investments designated at initial recognition as investments at fair value through profit or loss. Trading securities are investments which the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position.

Investments at amortised costs are the assets where the group's model objectives is to hold assets in order to collect contractual cash flows, and the contractual cash flows of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal. Investments at fair value through other comprehensive income are non-derivative investments that represent debt instruments under business model both to collect contractual cash flows and to sell and quoted and unquoted equity investments held with the primary aim of dividends yields.

(ii) Recognition and de-recognition

Investment securities are recognised when the Group becomes a party to the contractual provisions of the instrument. Investment securities are derecognised if the Group's contractual rights from the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. This is normally deemed to occur on settlement date i.e. when the Group receives or delivers an asset.

(iii) Measurement

Investments at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised directly in the statement of profit or loss. They are subsequently remeasured to fair value at each reporting date with any resultant gain or loss recognised in the statement of profit or loss.

Investments at fair value through other comprehensive income ("FVOCI") are initially recognised at fair value, including transaction costs that are directly attributable to the acquisition. Unrealised gains and losses arising from changes in the fair values of FVOCI investments are recognised in the statement of other comprehensive income. In the event of sale, disposal or collection of debt securities classified as FVOCI, the cumulative gains and losses recognised in other comprehensive income are transferred to the profit or loss. In the event of sale, disposal or collection of equity securities classified as FVOCI, the cumulative gains and losses recognised in other comprehensive income are transferred to the retained earnings.

(iv) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures fair value of an instrument using quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of the relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

4. Significant accounting policies (continued)

If an asset or a liability measured at fair value has a bid price and ask price, then the Group measures assets at a bid prices and liabilities at an ask price.

For investments in the debt instruments that are not quoted in an active market, the Group uses information from the pricing services such as Bloomberg for use as inputs in their fair value measurement that maximise the use of relevant observable inputs. For investments in funds not quoted in an active market the Group uses net asset values as provided by the fund managers/ administrator as their fair value.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(f) Impairment of financial assets

The Group applies the three-stage approach to measuring expected credit losses ("ECL") on bank balances, securities bought under repurchased agreements, investments in debts securities (except for debt securities which are fair valued through profit or loss and other assets). ECL on investment in debts securities classified as FVOCI is adjusted through the other comprehensive income statement. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

Stage 1 includes financial assets on initial recognition and that do not have a significant increase in credit risk since initial recognition or that have low credit risk. A 12-month ECL is the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss event will occur in the next 12 months.

Stage 2: Lifetime ECL - not credit impaired

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime ECL are recognised. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. ECL are the weighted average credit losses with the life-time probability of default ("PD").

Stage 3: Lifetime ECL - credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised based on discounted cash flow methods based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset. For these assets, lifetime ECL is recognised based on discounted cash flow methods.

The estimation of credit exposure for risk management purposes is complex and requires the use of models. The exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios, and of default correlations between counterparties. The Group measures ECL using PD, Exposure at Default ("EAD") and Loss Given Default ("LGD").

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across the various geographies in which the Group has exposures.

4. Significant accounting policies (continued)

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the forecasted collateral value and the associated recovery cost.

(g) Recognition and de-recognition of financial liabilities

The Group recognises and measures financial liability initially at fair value. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(h) Cash and cash equivalents

For the purpose of the consolidated cash flows, cash and cash equivalents comprise cash and bank balances, call deposits, placements with banks and treasury bills that have an original maturity of three months or less when acquired and which are subject to insignificant risk of changes in their fair value. Placement with original maturity over three months are presented under placement with banks. Loss allowance for bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition are measured at 12-month ECLs.

(i) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective interest rate includes all fees paid or received that are an integral part of the effective interest rate.

(j) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

(k) Property, equipment and intangibles

Furniture and equipment are stated at cost less accumulated depreciation and impairment losses, if any. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Depreciation is provided on cost using the straight-line method, which is intended to write off the cost of the assets over their expected useful life as follows:

Software	10 years
Furniture and equipment	3-5 years

(l) Leases

At the inception of the contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for the period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset, this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

4. Significant accounting policies (continued)

- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
  - the Bank has the right to operate the asset; or
  - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

The new definition of a lease under IFRS 16 has been applied for contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and to account for the lease and non-lease components as a single lease component.

(i) Measurement

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payment made at or before the commencement date, less any lease incentives received;
- any initial direct cost incurred by the lessee; and
- estimated cost to dismantle and to remove the underlying asset, or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease liability is measured as the present value of the future lease payments that are not paid at the commencement date. The lease payments are discounted based on the Bank's incremental borrowing rate. Lease liability comprises the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

4. Significant accounting policies (continued)

(ii) Short-term leases and leases of low-value assets
The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and for leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(m) Bank borrowings
Borrowings are initially measured at fair value minus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(n) Repurchase agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) are not derecognised. As the Bank retains all or substantially all the risks and rewards of the transferred assets, amounts received under these agreements are treated as liabilities and the difference between the sales and repurchase price treated as interest expense using the effective interest method.

Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the statement of financial position. Amounts paid under these agreements are treated as assets and the difference between the purchase and resale price treated as interest income using the effective interest method.

(o) Customer accounts
These are initially measured at fair value minus directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(p) Investment property
Investment property comprise buildings that are occupied substantially for use by third parties and are held by the group to earn rentals or for capital appreciation or both.

(i) Recognition and Measurement
An investment property is recognised initially at cost of acquisition including any transaction cost and is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent expenditure is capitalised only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

(ii) Depreciation
Depreciation is calculated to write off the cost of items of investment property less their estimated residual values using the straight-line method over their estimated useful lives of 25 years, and is recognised in profit or loss. Depreciation methods, residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

(iii) Derecognition
An item of investment property is derecognised upon disposal or when no future economic benefits are expected from its use. Profits and losses on disposals of items of investment property are determined by comparing the proceeds from their disposals with their respective carrying amounts, and are recognised net within profit or loss.

(q) Employee benefits

(i) Bahraini employees
Pensions and other social benefits for Bahraini employees are covered by the General Organisation for Social Insurance Scheme, to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Group's share of contributions to this scheme, which is a defined contribution scheme under International Accounting Standard ("IAS") 19 – Employee Benefits are charged to income in the year to which they relate.

4. Significant accounting policies (continued)

(ii) Expatriate employees
Expatriate employees are entitled to a leaving indemnity under the Bahrain Labor Law for the Private Sector – Law no. (36) of 2012 based on length of service and final salary and other allowances paid. Provision for this unfunded commitment, which represents a defined benefit plan under IAS 19 – Employee Benefits, has been made by calculating the notional liability had all employees left at the balance sheet date.

(iii) Employee share incentive scheme
The Bank operates a discretionary share-based plan, which is designed to provide competitive long-term incentives and is a cash-settled share based payment scheme. The total amount is expensed over the vesting period and is determined by reference to the fair value of the shares at the grant date and re-measured at every year end over the vesting period.

(r) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(s) Fiduciary activities
The Group act as administrator and manager for assets held in funds and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

(t) Settlement date accounting
All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Group receives or delivers the asset. Regular way purchases or sale are purchases or sale of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(u) Offsetting
Financial assets and liabilities are set off and the net amount reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(v) Earnings per share
The Group presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(w) Interest income and expense
Interest income and expense is recognised in the statement of profit or loss as it accrues, using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. The effective rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

(x) Fee and commission
Fee and commission income comprises custody fee, investment management fee, performance fee and investment banking fees earned by the Group. Custody and investment management fees are recognised at a point in time as the related services are performed and the Group becomes entitled to the fee and the customer obtains control of the benefits from the services. Variable consideration in such fees are estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of fee recognised, will not occur when the associated uncertainty is resolved.

4. *Significant accounting policies (continued)*

Performance fee is recognised in accordance with investment management agreements where the Group is entitled to receive a share of the profits of the investment funds once a certain hurdle is reached on a high-water mark basis. In accordance with the terms and conditions of the investment management agreements, the performance fee due to the Group is calculated at each reporting date, taking into account each performance condition and distribution arrangements of the Funds as a whole.

Fee and commission expense relates mainly to custody fee which is expensed as the service is provided.

(y) Net investment income

Net investment income includes all realised and unrealised fair value changes on investment at fair value through profit or loss and realised portion on the debt investment at fair value through other comprehensive income and the related dividend. This also includes interest income from fixed income investments.

(z) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are presented in net investment income.

(aa) Brokerage and other income

Brokerage and other income consist of brokerage income, other income and foreign exchange income. This income is recognised at a point in time when the related services are performed and the customer obtains control of the benefits of the services rendered.

(ab) Segment reporting

IFRS 8 “Operating Segments” prescribes the “management approach” to segment reporting which requires the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Group’s decision maker in order to assess each segment’s performance and to allocate resources to them. The Group’s lines of business are brokerage, asset management, investment banking, real estate, investments, market making and custody business. At present, the Group’s revenue is reviewed by lines of business. However, the expenses and results are reviewed at a Group level and therefore no operating segment disclosure is provided in these consolidated financial statements.

(ac) Statutory reserve

In accordance with the Commercial Companies Law, 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid-up share capital. This reserve is not normally distributable except on liquidation.

(ad) General reserve

General reserve is appropriated from retained earnings and available for distribution.

(ae) Treasury shares

When share capital of the Company is repurchased, the amount of consideration paid is recognised as a change in equity. Repurchased shares classified as treasury shares are carried at cost and are presented as a deduction from equity. Gains/ losses on disposal of treasury shares are recognised in equity.

5. Financial risk management

(a) Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

5. Financial risk management (continued)

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is assisted in this function by the Investment Committee.

The Board has set up an independent Risk Management Unit that provides leadership, direction and coordination of the efforts in managing the risks. It provides a holistic, integrated, future-focused and process-oriented approach to enable the Group to balance its key business risks and opportunities with the intent of maximising returns and shareholder value.

The Audit and Risk Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit and Risk Committee is assisted in these functions by the Internal Audit function, which undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

(b) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. The credit risk for the Group arises principally from its brokerage activities and issuer price risk in proprietary portfolios. Counterparty credit risk consists of two categories of risks: pre-settlement and settlement risks. In the brokerage department, counterparty credit risk arises vis-a-vis trading counterparties and counterparty brokers. In asset management treasury and proprietary investments, deals routed through counterparty brokers gives rise to counterparty credit risk.

(i) Investments in debt securities

The Group's investments in debt securities are spread among geographical areas and various credit grades. The Group has an established investment policy under which investments are analysed individually for classification based on established business model. Hence, debt investments may be purchased for trading purposes as well as for liquidity management purposes. Each investment is evaluated by the proprietary investments department based on the business model and various external factors including but not limited to external rating, issuer rating, coupon rates, country risk, etc.

Expected loss is assessed based on a variety of data that are determined to be predictive of the risk of loss (including external credit ratings, financial statements and available external information) and applying experienced credit judgment. The historic loss experience is adjusted to reflect differences between economic conditions during the period over which historic data has been collected, current conditions and the Group's view of economic conditions over the remaining life-time tenor of the securities. Management believes there is no further credit risk provision required in excess of the normal impairment on debt securities.

(ii) Management of credit risk

The Group limits its credit risk by applying well-defined credit policies and procedures laid down by the Board and the Investment Committee.

The Group manages the counterparty risks for brokerage clients by conducting a credit evaluation of the clients and counterparty brokers of the Gulf Cooperation Council ("GCC") and other exchanges using financial and other parameters.

The risks in proprietary investment portfolios are monitored and controlled by means of asset allocation guidelines and exposure limits approved in accordance with well-defined investments policies and procedures, by the Asset Liability Investment Committee ("ALIC"), Investment Committee or the Board, as appropriate. Additionally, the Group strictly adheres to the large exposure norms prescribed by the CBB.

Notes to the consolidated financial statements Bahraini Dinars '000

5. Financial risk management (continued)

Regular audits of business units and Group credit processes are undertaken by Internal Audit.

Exposure to credit risk

The Group's maximum exposure to credit risk is as follows:

	2020	2019
Bank balances	54,393	56,555
Treasury bills	1,127	4,261
Securities bought under repurchase agreements	73,816	51,106
FVTPL debt securities	8,685	9,564
FVOCI debt securities	4,970	4,169
Fee receivable	1,153	3,523
Other assets	6,947	8,340
	151,091	137,518

Currently the margin trading lending on the GCC Stock Exchange and REPO transactions are subject to formal collateral arrangement. The margin scheme is undertaken in accordance with the related regulation issued by the CBB. Further, the margin lending on the UAE Stock Exchanges are undertaken in accordance with the regulations issued by the Emirates Securities and Commodities Authority. The shares in the Margin Trading portfolio is held as collateral against the amount lent to the customer. Such shares are marked-to-market on a daily basis. If there is any deficit in the minimum equity ratio, then a maintenance margin call is issued.

Additionally, brokerage client agreements have a clause that the Group has a right to liquidate the client's shares under its custody, if such client fails to honour its obligations.

The Group writes off a customer/ investment balance when the Group determines that carrying amounts are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the customer/ issuer's financial position such that the customer/ issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. There were no such write-offs during the year.

Risk exposure concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits. Concentration of risks is managed by counterparty, by geographical region and by industry sector.

The maximum credit exposure to any client, counterparty or group of closely related counterparties as of 31 December 2020 was BD 34,972 (2019: BD 15,576), relating to "cash and cash equivalents, investments at fair value through profit or loss and investments at fair value through other comprehensive income".

Notes to the consolidated financial statements Bahraini Dinars '000

5. *Financial risk management (continued)*

Geographical exposure distribution

Geographical concentration of all assets and liabilities of the Group are as follows:

2020	**Middle East & Asia countries**	**North America**	**Europe**	**Total**
Assets				
Cash and bank balances	51,470	442	2,481	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	67,475	-	6,341	73,816
Investments at fair value through profit or loss	14,323	5,247	2,873	22,443
Investments at fair value through other comprehensive income	9,723	-	-	9,723
Investments at amortized cost	9,953	-	-	9,953
Investments property	-	427	-	427
Fees receivable	1,107	-	46	1,153
Other assets	7,291	19	13	7,323
Property, equipment and intangibles	1,422	-	-	1,422
Total assets	**163,891**	**6,135**	**11,754**	**181,780**
Liabilities				
Short-term bank borrowings	7,400	-	-	7,400
Securities sold under repurchase agreements	68,277	-	6,129	74,406
Customer accounts	33,182	134	1,569	34,885
Other liabilities	5,416	-	10	5,426
Payable to other unit holders in consolidated funds	1,340	-	-	1,340
Total liabilities	**115,615**	**134**	**7,708**	**123,457**

2019	Middle East & Asia countries	North America	Europe	Total
Assets				
Cash and bank balances	46,349	957	9,249	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	48,185	-	2,921	51,106
Investments at fair value through profit or loss	15,768	2,143	2,165	20,076
Investments at fair value through other comprehensive income	9,128	-	-	9,128
Investments at amortised cost	9,971	-	-	9,971
Investments property	-	1,915	-	1,915
Fees receivable	3,511	2	10	3,523
Other assets	1,671	-	-	1,671
Property, equipment and intangibles	8,563	10	3	8,576
Total assets	147,407	5,027	14,348	166,782

Notes to the consolidated financial statements Bahraini Dinars '000

5. *Financial risk management (continued)*

	Middle East & Asia countries	North America	Europe	Total
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	40,589	50	701	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	106,667	50	701	107,418

The distribution of assets and liabilities by industry sector is as follows:

2020	**Financial services**	**Others**	**Total**
Total assets	127,725	54,055	**181,780**
Total liabilities	99,729	23,728	**123,457**

2019	Financial services	Others	Total
Total assets	105,338	61,444	166,782
Total liabilities	78,017	29,401	107,418

The gross carrying amount of financial instruments and the associated loss allowance is as follows:

	2020			2019		
Particulars	**Gross exposure**	**ECL**	**Net exposure**	Gross exposure	ECL	Net exposure
Bank balances	54,403	10	54,393	56.580	25	56,555
Securities bought under repurchase agreements	73,855	39	73,816	51,118	12	51,106
Investment securities	9,729	6	9,723	9,142	14	9,128
Other assets (margin lending)	7,086	17	7,069	9,518	19	9,499
Total	**145,073**	**72**	**145,001**	**126,358**	**70**	**126,288**

Investments in debt securities classified as FVOCI are entirely in investment grade debt instruments i.e. credit grade A to BB and the ECL on the same has been adjusted through the other comprehensive income statement.

All investments at amortised costs are exposures to the domestic sovereign debt. No credit loss is expected to materialise on these investments.

Notes to the consolidated financial statements Bahraini Dinars ‘000

5. Financial risk management (continued)

Settlement risk

The Group’s activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a counter party to honor its obligations to deliver cash, securities or other assets as contractually agreed.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk is managed for all the three risk originating departments - Asset Management, Brokerage and Proprietary Investments and the subsidiary company, SICO Funds Services Company BSC (c).

It originates from the mismatches in the maturity pattern of assets and liabilities or other defaults that could result in its funding and credit lines drying up. Measuring and managing liquidity needs are considered vital for effective operation of the Group.

The Group faces three types of liquidity risks as follows:

- Funding risk – the need to replace net outflows due to unanticipated withdrawal/ non-renewal of call deposit accounts, borrowing or inability to liquidate financial assets in time;
- Operating liquidity – the need to compensate for low liquidity of investments or markets and non-receipt of expected inflows of funds; and
- Call risk - due to crystallisation of contingent, off balance sheet liabilities and inability to undertake profitable business opportunities when desirable.

Management of liquidity risk

Liquidity risk is currently managed by the Treasury Unit monitoring the cash flow and funding requirements on a daily basis. Credit lines have been established with a few financial institutions to be drawn upon in case of need. The Bank has set up the ALIC to closely supervise the liquidity management and associated risks.

The residual contractual maturity of financial liabilities is as follows:

2020	**Less than 1 year**	**Gross outflow**	**Carrying value**
Short-term bank borrowings	7,401	7,401	7,400
Securities sold under repurchase agreements	74,574	74,574	74,406
Customer accounts	34,885	34,885	34,885
Other liabilities	5,426	5,426	5,426
Payable to other unit holders in consolidated funds	1,340	1,340	1,340
	123,626	**123,626**	**123,457**

2019	Less than 1 year	Gross outflow	Carrying value
Short-term bank borrowings	3,778	3,778	3,770
Securities sold under repurchase agreements	55,701	55,701	55,548
Customer accounts	41,340	41,340	41,340
Other liabilities	6,138	6,138	6,138
Payable to other unit holders in consolidated funds	622	622	622
	107,579	107,579	107,418

Notes to the consolidated financial statements Bahraini Dinars '000

5. Financial risk management (continued)

Liquidity risk is also managed through ensuring compliance with regulatory liquidity requirements. Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are the ratios which the Bank computes as per the CBB requirements. The ratios as of 31 December 2020 are as follows:

	As of 31 December 2020	As of 31 December 2019
Liquidity Coverage Ratio	**263%**	131%
Net Stable Funding Ratio	**170%**	148%

The average LCR for the year ended 31 December 2020 was 158% (31 December 2019: 137%).

During the year, as a regulatory concessionary measure to contain the financial repercussion of the COVID-19 impact, the CBB reduced the LCR and NSFR limits from 100% to 80%.

(d) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether these changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Bank, as part of its normal operations, is exposed to market risk with regard to its investments in fair value through profit or loss ("FVTPL") securities and fair value through other comprehensive income securities. However, this risk is controlled by appropriate management review and monitoring through the Investment Portfolio Guidelines set by the Board Investment Committee and the Group's management. Market risk management thus involves management of equity price risk, interest rate risk and foreign exchange risk.

(i) Equity price risk

Equity investment activities have a significant impact on earnings and business relationships in the Bank. Only the equities and equity based funds are considered by the Bank for the purpose of market risk management and market risk capital computation.

Active management of investments is a well-known method of risk management in equities. Portfolio diversification on the basis of industry, sector, geographic, and market factors enables the Bank to diversify its risks. There are well defined Investment Policies and Procedures approved by the Board that govern the FVTPL as well as FVOCI portfolios.

Formal valuation policies that specify appropriate and sound portfolio valuation methodologies have been established for investments in listed companies and indirect fund investments. Marking the equity portfolio to market on a daily basis ensures that the unrealized gains and losses are accounted for on a daily basis. Externally managed funds and portfolios are valued at Net Asset Value provided by the external investment managers and administrators on a periodic basis.

Portfolio-valuation methodologies conform to accepted accounting principles and are based on sound, empirically acceptable approaches that are clearly articulated, well documented, and applied consistently across similar investments over time.

Equity price risk – sensitivity

All of the Group's listed equity investments are listed on recognized regional and global stock exchanges. For such investments classified at FVOCI, a 1% increase in the fair value at the reporting date would have increased equity by BD 48 (2019: BD 50); an equal change in the opposite direction would have decreased equity by BD 48 (2019: a decrease of BD 50). For such investments classified as at FVTPL, the impact of a 1% increase in the index at the reporting date on profit or loss would have been an increase of BD 71 (2019: BD 22). An equal change in the opposite direction would have decreased profit or loss by BD 71 (2019: BD 22).

Notes to the consolidated financial statements Bahraini Dinars '000

5. *Financial risk management (continued)*

(ii) ***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The investments in debt instruments, placements, borrowings and call deposits are subject to interest rate risk. The Treasury Unit carefully monitors these exposures in order to mitigate this risk. The Bank minimises its exposure to interest rate risk by careful monitoring of exposures. Placements and call deposits with banks are at fixed interest rates and mature within three months. The liabilities of the Bank include customer advances for purchase of investments on their behalf. The Bank maintains cash balances with various banks in different currencies to meet liquidity requirements for equity share deals settlement in these currencies. These arise due to the need for timely payment of settlement amounts by clients as well as proprietary trades. The Bank has exposures to debt instruments issued by GCC institutions in its proprietary investment portfolios. Some of these instruments are not listed but can be traded over the counter. Investments in debt instruments are approved only based on structured analysis of the proposed investment and the issuer. Some debt instruments are unrated.

The Bank follows the Standardised Methodology for managing interest rate risk, where the risk exposures in fixed income securities are measured using a two-pronged approach – measuring the issuer risk and general market risk. The Duration Gap approach methodology is used for this purpose.

Interest rate re-pricing profile

2020	**Effective interest rate % p.a.**	**Within 1 year**	**Over 1 year**	**Non-interest sensitive**	**Total**
Bank balances		-	-	39,951	39,951
Call deposits*		1,988	-	-	1,988
Treasury bills		1,127	-	-	1,127
Short-term placements with banks	**2.46%**	12,454	-	-	12,454
Securities bought under repurchase agreements	**2.00%**	73,816			73,816
Investments at fair value through profit or loss	**5.70%**	1,323	7,362	13,758	22,443
Investments at fair value through other comprehensive income	**6.79%**	-	4,970	4,753	9,723
Investments at amortised cost**	**6.90%**	-	9,953	-	9,953
Investment property		-	-	427	427
Fees receivable		-	-	1,153	1,153
Other assets		-	-	7,323	7,323
Property, equipment and intangibles		-	-	1,422	1,422
Total assets		**90,708**	**22,285**	**68,787**	**181,780**
Short-term bank borrowings	**1.18%**	7,400	-	-	7,400
Securities sold under repurchase agreements	**1.52%**	74,406	-	-	74,406
Customer accounts		-	-	34,885	34,885
Other liabilities		-	-	5,426	5,426
Payable to other unit holders in consolidated funds		-	-	1,340	1,340
Total liabilities		**81,806**	**-**	**41,651**	**123,457**
Equity		**-**	**-**	**58,323**	**58,323**
Total liabilities and equity		**81,806**	**-**	**99,974**	**181,780**
Interest rate sensitivity gap		**8,902**	**22,285**	**(31,187)**	**-**
Cumulative interest rate sensitivity gap		**8,902**	**31,187**	**-**	**-**

Notes to the consolidated financial statements Bahraini Dinars '000

5. Financial risk management (continued)

Interest rate re-pricing profile

2019	Effective interest rate % p.a.	Within 1 year	Over 1 year	Non-interest sensitive	Total
Bank balances		-	-	32,963	32,963
Call deposits*		2,112	-	-	2,112
Treasury bills		4,261	-	-	4,261
Short-term placements with banks	1.65%	21,480	-	-	21,480
Securities bought under repurchase agreements	2.66%	51,106	-	-	51,106
Investments at fair value through profit or loss	5.82%	1,620	7,943	10,513	20,076
Investments at fair value through other comprehensive income	6.65%	-	4,169	4,959	9,128
Investments at amortised cost**		-	9,971	-	9,971
Investment property		-	-	1,915	1,915
Fees receivable		-	-	3,523	3,523
Other assets		-	-	8,576	8,576
Property, equipment and intangibles		-	-	1,671	1,671
Total assets		80,579	22,083	64,120	166,782
Short-term bank borrowings	2.60%	3,770	-	-	3,770
Securities sold under repurchase agreements	2.40%	55,548	-	-	55,548
Customer accounts		-	-	41,340	41,340
Other liabilities		-	-	6,138	6,138
Payable to other unit holders in consolidated funds		-	-	622	622
Total liabilities		59,318	-	48,100	107,418
Equity		-	-	59,364	59,364
Total liabilities and equity		59,318	-	107,464	166,782
Interest rate sensitivity gap		21,261	22,083	(43,344)	-
Cumulative interest rate sensitivity gap		21,261	43,344	-	-

* *At 31 December 2020 the effective interest rate on Bahraini Dinar call deposits is 1% (2019: 1%) and on USD call deposits is 1% (2019: 0.75%).*

** *At 31 December 2020 the effective interest rate of investments at amortized cost is 6.65% (2019: 6.65%).*

(iii) Foreign exchange risk

Foreign exchange rate risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Most of the Bank's foreign currency exposures are in GCC currencies and US Dollar. Such exposures include short-term fixed deposits, investments in securities and due from/ to customers. Since the Bahraini Dinar and all GCC currencies except for Kuwaiti Dinar are effectively pegged to the US Dollar, currency risk is minimal.

5. *Financial risk management (continued)*

(e) Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, systems and people or external events. Unlike market or credit risks, which are systemic in nature, operational risk is firm-specific and is inherent in the day-to-day operations of any bank. It includes a very broad spectrum of risks that could arise from a variety of reasons including, but not limited to, deficient transaction processing, business practices, employment practices and systems failures, and damage to physical assets. It also includes the risk of internal and external fraud.

The Bank follows a very conservative control consciousness and adopts a number of mechanisms to manage this risk. These include a well-defined organisational structure, policies and procedures guidelines and segregation of duties, approval authorities, reconciliations and tolerance limits for exposures. Internal Audit and Regulatory Compliance Unit provide support in this control activity.

Regular custodial position reconciliations and bank reconciliations provide key strengths to mitigate operational risks. There is also a professional indemnity insurance cover in place.

Another endeavor of the Bank's operational risk management is to usher in straight through processing to enable seamless processing and reduce operational errors and optimise productivity. The Bank upgraded the core banking system and has used office automation since 2013.

Assets under management activity have a range of controls to support the quality of the investment process and are supervised by an Asset Management Committee. These are supported by strict operational controls to safeguard clients' assets, and there are regular reviews of investment management performance.

Investment Banking and Real Estate activity is exposed to legal and reputational risk. Obtaining the necessary legal and regulatory approvals mitigates this risk. Advisory and underwriting matters are monitored and controlled by the ALIC.

Regulatory compliance including anti-money laundering compliance program also forms a key component of risk management. Board and management attach high importance to these matters of strategic importance. There are well laid out policies and procedures to achieve compliance with regulatory matters.

(f) Capital management

The CBB sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's current capital position is sufficient to meet the regulatory capital requirements. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has subsidiaries. The Bank has complied with regulatory capital requirements throughout the year.

Notes to the consolidated financial statements Bahraini Dinars '000

5. Financial risk management (continued)

The Bank's regulatory capital position at 31 December was as follows:

Based on year end balances

	2020	2019
Risk weighted exposure		
Credit risk	40,885	56,530
Market risk	27,150	18,388
Operational risk	23,803	18,559
Total risk weighted assets	**91,838**	93,477
Common Equity (CET 1)	58,317	59,349
Additional Tier 1	72	70
Total regulatory capital	**58,389**	59,419
Capital adequacy ratio	**63.58%**	63.57%

The capital adequacy ratio as at 31 December 2020 has been calculated in accordance with Basel III and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardised approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market risk is computed using the Standardised method.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted basis while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

Notes to the consolidated financial statements Bahraini Dinars '000

6. Group subsidiaries and consolidated funds

Set out below are the Group's principal subsidiaries at 31 December 2020. Other than the consolidated funds, the subsidiaries as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals to the voting rights held by the Group. The investment in consolidated funds comprises subscription to the units issued by the fund to the unit holders and the proportion of ownership interests held comprises the percentage of the units held by the Group to the total units issued by the fund.

The country of incorporation or registration is also their principal place of business:

Subsidiary	Percentage ownership	Year of incorporation	Country of incorporation	Principal activity
1. SICO Funds Company BSC (c)	100%	1998	Bahrain	Umbrella company for SICO mutual funds
2. SICO Funds Services Company BSC (c)	100%	2004	Bahrain	Custody and administration services
3. SICO Funds Company III BSC (c)	100%	2006	Bahrain	Umbrella company for SICO mutual funds
4. SICO Funds Company IV BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
5. SICO Funds Company VI BSC (c)	100%	2009	Bahrain	Umbrella company for SICO mutual funds
6. SICO Funds Company VIII BSC (c)	100%	2016	Bahrain	Umbrella company for SICO mutual funds
7. SICO Ventures Company SPC	100%	2010	Bahrain	To own the nominal shares in all other subsidiaries of SICO
8. SICO Financial Brokerage LLC	100%	2011	UAE	Brokerage services
9. SICO Kingdom Equity Fund	80%	2011	Bahrain	Investment in listed equity securities in the Kingdom of Saudi
10. SICO Fixed Income Fund	84%	2013	Bahrain	Investment in listed debt securities comprising bonds and sukuks
11. SICO US Real Estate Corp	100%	2017	Cayman Island	Investment in income generating properties in various geographies in the United States

Notes to the consolidated financial statements Bahraini Dinars '000

6. Group subsidiaries and consolidated funds (continued)

Percentage ownership of all the subsidiaries remained substantially the same in 2020 and 2019 except for SICO Kingdom Equity Fund which became a consolidated subsidiary during the year.

7. Payable to other unit holders in consolidated funds

The following table summarises the information relating to the consolidated funds and the amount payable to the unit holders other than the Group. Since there is a contractual obligation to deliver cash to the other unit holders, the amount payable to other unit holders is considered as a liability of the Group.

	2020	2019
Payables to other unit holders in the consolidated funds:		
SICO Fixed Income Fund	640	622
SICO Kingdom Equity Fund	700	-
	1,340	622
Share of profit/ (loss) on non-controlling unit holders in consolidated funds		
SICO Fixed Equity Fund	25	61
SICO Kingdom Equity Fund	(489)	-
	(464)	61

SICO Fixed Income Fund

	2020	2019
Other unit holders' share	**15.8%**	15.5%
Cash and cash equivalents	522	593
Investment at fair value through profit or loss	4,023	4,101
Other assets	58	67
Short-term bank borrowings	(540)	(737)
Other liabilities	(12)	(13)
Net assets	**4,051**	4,011
Carrying amount of payable to other unit holders	**640**	622
Investment income	221	440
Net interest income	(8)	5
Profit	160	391
Total comprehensive income	**160**	391
Profit allocated to other unit holders	**25**	61
Cash flows from operating activities	49	134
Cash flows used in financing activities	(120)	(129)
Net (decrease) / increase in cash and cash equivalents	**(71)**	5

Notes to the consolidated financial statements Bahraini Dinars '000

7. Payable to other unit holders in consolidated funds (continued)

SICO Kingdom Equity Fund

	2020	2019
Other unit holders' share	**20%**	-
Cash and cash equivalents	6	
Investment at fair value through profit or loss	3,425	-
Other assets	5	-
Short-term bank borrowings	-	-
Other liabilities	(19)	-
Net assets	**3,417**	-
Carrying amount of payable to other unit holders	**700**	-
Investment income	(85)	-
Interest income	-	-
Loss	(204)	-
Total comprehensive income	**(204)**	-
Profit/ (loss) allocated to other unit holders	**(489)**	-
Cash flows from operating activities	(206)	-
Cash flows used in financing activities	4,312	-
Net increase/ (decrease) in cash and cash equivalents	**4,106**	-

8. (a) Cash and bank balances

	2020	2019
Cash and bank balances	39,951	32,966
Call deposits	1,988	2,112
Short-term placements with banks	12,464	21,502
Less:		
Expected credit loss	(10)	(25)
Total	**54,393**	56,555
Treasury bills	1,127	4,261
Total cash and cash equivalents for cash flow purposes	**55,520**	60,816

Cash and bank balances include bank balances amounting to BD 14,968 (2019: BD 10,738) held on behalf of discretionary customer accounts.

(b) Securities bought under repurchased agreements
Reverse repurchase agreements have been entered with clients amounting to BD 73,816 (2019: BD 51,106) for which client owned securities of BD 95,587 (2019: BD 63,025) are pledged as collateral.

Notes to the consolidated financial statements Bahraini Dinars ‘000

9. Investments at fair value through profit or loss

	2020	2019
Quoted equity securities		
- Consolidated funds	3,425	-
- Parent	3,667	2,230
Funds		
- Quoted	4,138	5,898
- Unquoted	2,528	2,384
Quoted debt securities		
- Parent	4,662	5,463
- Consolidated funds	4,023	4,101
	22,443	20,076

10. Investments at fair value through other comprehensive income

	2020	2019
Equity securities		
- Quoted	4,753	4,959
	4,753	4,959
Debt securities		
- Quoted	4,970	4,169
	4,970	4,169
	9,723	9,128

11. Investment property

Investment property represent properties in the USA acquired in 2018 through a fund structure. In 2019, the fund structure was dissolved and the properties were transferred to SICO US Real Estate Corp., a wholly owned subsidiary of the Bank.

(a) Income from investment property

	2020	2019
Rental Income	156	233
Loss on sale	(170)	-
Impairment charge	(87)	-
	(101)	233

Notes to the consolidated financial statements Bahraini Dinars '000

11. Investment property (continued)

(b) The details of the investment in properties is as follows:

	2020	2019
Cost		
At 1 January	1,915	1,985
Disposal	(1,459)	-
At 31 December	**456**	**1,985**
Accumulated depreciation		
At 1 January	(70)	(30)
Disposal	72	-
Depreciation for the year	(31)	(40)
At 31 December	**(29)**	**(70)**
Carrying amount	**427**	**1,915**

During 2020, the Group sold three of the five investment properties. The fair value of investment property as at 31 December 2020 is based on expected exit price and equates to the carrying value. The fair value of investment property as at 31 December 2019 was BD 2,362.

12. Fees receivable

Fees receivable mainly represent management, custody and performance fee receivable by the Group from its Discretionary Portfolio Management Account ("DPMA") clients and managed funds.

	2020	2019
Management fees	992	1,233
Performance fees	75	2,225
Custody fees	86	65
	1,153	3,523

13. Other assets

	2020	2019
Receivables from clients	5,355	6,843
Guarantee deposit with the Bahrain Bourse	500	500
Prepaid expenses	376	236
Interest receivable	713	634
Other receivables	379	363
	7,323	8,576

Notes to the consolidated financial statements Bahraini Dinars '000

14. Property, equipment and intangibles

	Right-of-use of leased assets	Software	Furniture and equipment	Capital work in progress	2020 Total	2019 Total
Cost						
At 1 January	493	2,552	1,394	39	4,478	3,610
Additions	26	205	23	-	254	888
Disposals	-	-	-	-	-	(20)
At 31 December	**519**	**2,757**	**1,417**	**39**	**4,732**	4,478
Depreciation						
At 1 January	149	1,701	957	-	2,807	2,370
Charge for the year	168	261	74	-	503	457
Disposals	-	-	-	-	-	(20)
At 31 December	**317**	**1,962**	**1,031**	**-**	**3,310**	2,807
Net book value At 31 December 2020	**202**	**795**	**386**	**39**	**1,422**	-
Net book value at 31 December 2019	344	851	437	39	-	1,671

15. Short-term bank borrowings and securities sold under repurchase agreements

(a) The following represents the movement in short-term bank borrowings:

At 1 January 2020	3,770
Borrowings made during the year	3,630
Borrowings settled during the year	-
At 31 December 2020	**7,400**

(b) The following represents the movement in securities sold under repurchase agreements during the year:

At 1 January 2020	55,548
Borrowings made during the year	44,670
Borrowings settled during the year	(25,812)
At 31 December 2020	**74,406**

Repurchase agreements have been entered into on behalf of clients for which client owned securities of BD 92,202 (2019: BD 61,648) are pledged as collateral.

The carrying value of the investments at amortised cost pledged as collateral amounts to Nil (2019: BD 3,770)

16. Customer accounts

These include settlement amounts payable to customers for completed trades and amounts received from customers to fund their trading activities.

Notes to the consolidated financial statements Bahraini Dinars '000

17. Other liabilities

	2020	2019
Accrued expenses	1,295	1,808
Provision for employee leaving indemnities	926	801
Employee share incentive scheme liability	2,318	2,171
Other payables	887	1,358
	5,426	6,138

18. Share capital

	2020	2019
Authorised share capital		
1,000,000,000 (2019: 1,000,000,000) shares of 100 fils each	**100,000**	100,000

	2020	2019
Issued and fully paid		
428,487,741 ordinary shares of 100 fils each	**42,849**	42,849

Proposed appropriations
The Board of Directors proposed the following appropriations subject to shareholders and regulatory approvals.

	2020	2019
Cash dividend 5% (2019: 10%)	**2,142**	3,899

The shareholders are:

	Nationality	**2020**		2019	
		Capital	% holding	Capital	% holding
Social Insurance Organisation	Bahrain	21,588.5	50.38	15,922.5	37.16
National Bank of Bahrain BSC	Bahrain	5,362.5	12.51	5,362.5	12.51
Ahli United Bank BSC	Bahrain	3,667	8.56	3,667	8.56
BBK BSC	Bahrain	3,390	7.91	3,390	7.91
Investcorp Holdings BSC	Bahrain	-	-	2,366	5.52
Arab Banking Corporation BSC	Bahrain	2,366	5.52	2,366	5.52
Gulf Investment Corporation GSC	Kuwait	-	-	3,300	7.70
Employee Stock Ownership Plan	Bahrain	2,027	4.73	2,027	4.73
Al Salam Bank - Bahrain BSC	Bahrain	591	1.39	591	1.39
SICO BSC (c) (Treasury shares)	Bahrain	3,857	9.00	3,857	9.00
		42,849	100	42,849	100

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18. Share capital (continued)

Treasury shares and shares under employee share incentive scheme

	2020		2019	
	Number of shares	**Amount**	Number of shares	Amount
Treasury shares	38,563,893	5,322	38,563,893	5,322
Employee share incentive scheme (refer to note 28)	20,272,618	2,263	20,272,618	2,263
	58,836,511	7,585	58,836,511	7,585

19. Statutory reserve

In accordance with the Commercial Companies Law, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The transfer to this reserve for the year amounted to BD 296 (2019: BD 603).

20. General reserve

In accordance with the Bank's Articles of Association and on the recommendation of the Board of Directors, specific amount is appropriated from profits for the year and transferred to a general reserve. The reserve carries no restriction in its distribution. The appropriations are subject to the approval of the shareholders at the Annual General Meeting. For 2020, no appropriations to general reserve are recommended.

21. Net investment income

	2020	2019
Net gain on investments at fair value through profit or loss*	212	2,508
Loss on sale of Investments at fair value through other comprehensive income	-	(20)
Interest income from debt instruments	1,502	1,382
Dividend income	524	425
Other investment income	-	20
	2,238	4,315

* Net gain on investments carried at fair value through profit or loss comprises the following:

	2020	2019
Realised (loss) / gain on sale	(379)	1,280
Unrealised fair value gain	591	1,228
	212	2,508

The realised gain from investments at fair value through profit or loss represents the difference between the carrying amount of investments at the beginning of the year, or the transaction price if it was purchased in the current year, and its sale or settlement price.

The unrealised gain represents the difference between the carrying amount of investments at the beginning of the year, or the transaction price if it was purchased in the current year, and its carrying amount at the end of the year.

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22. Net fee income

	2020	2019
Fee income from trust or other fiduciary activities		
- Management fee	2,971	3,551
- Performance fee	69	2,241
- Custody fee	462	406
- Advisory & Underwriting fee	163	114
	3,665	6,312
Fee expense		
- Custody fee	(46)	(41)
Net fee income	**3,619**	6,271

23. Brokerage and other income

	2020	2019
Brokerage income	1,704	1,394
Foreign exchange gain	926	709
Government grant	312	-
Other income	287	289
	3,229	2,392

24. Net interest income

	2020	2019
Interest income from:		
Placements, call deposits and reverse repos	2,189	2,680
Margin lending	417	152
	2,606	2,832
Interest expense on:		
Bank borrowings and repos	(1,159)	(1,427)
Net interest income	**1,447**	1,405

25. Staff cost

	2020	2019
Salaries, allowances and bonus	4,205	4,447
Post-employment benefit	215	208
Share based payments	128	447
Social security costs	213	204
Other costs	385	345
	5,146	5,651

As at 31 December 2020, the Group employed 73 (2019: 72) Bahrainis and 37 (2019: 38) expatriates.

The Group's contributions for the year to the Social Insurance Organization in respect of its employees amounted to BD 213 (2019: BD 204).

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26. Other operating expenses

	2020	2019
Occupancy expenses	138	141
Communication expenses	59	81
Marketing expenses	109	189
Professional fees	193	208
Technology related expenses	768	791
Depreciation	534	498
Other operating expenses	988	912
	2,789	2,820

27. Related party transactions

Transactions with funds owned by the subsidiary companies
The Group provides management services to the funds owned by the subsidiary companies namely SICO Funds Company BSC (c), SICO Funds Company III BSC (c), SICO Funds Company IV BSC (c), SICO Funds Company VI BSC (c), SICO Funds Company VIII BSC (c) and SICO Ventures Company WLL. In the ordinary course of business and has investments in certain funds.

	2020	2019
Fee and commission income	**478**	1,035
Fee receivable	**197**	321
Investments at fair value through profit or loss:		
- SICO Khaleej Equity Fund	**1,264**	1,195
- SICO Kingdom Equity Fund	**-**	2,539
- Bahrain Liquidity Fund Company	**1,082**	1,150

The details of the own funds under management are in note 29.

Transactions with shareholders
The Group obtained short-term borrowings from its bank shareholders for a total of BD 7,400 (2019: BD 3,770). During the year ended December 31, 2020 the Group entered into Repos with its bank shareholders and as of 31 December 2020, had BD 41,261 (2019: BD 31,827) of repurchase agreements with these related parties. The Group has banking relationships, makes deposits and placements, obtains short term borrowings and has unutilized credit facilities with certain of its shareholders that are local banks. All such transactions are in the ordinary course of business and on normal commercial terms.

The Group also provides discretionary portfolio management account services to two of its shareholders in the ordinary course of business. These services are provided on normal commercial terms and conditions and the related funds are held by the Group in a fiduciary capacity. The excess funds are placed with the other banks as deposits on normal commercial terms.

	2020	2019
Fee and commission income	**409**	988
Fee receivable	**103**	293
Funds under management	**46,525**	53,847
Placements	**11,154**	12,111
Borrowings	**7,400**	3,770

Notes to the consolidated financial statements Bahraini Dinars ‘000

27. Related party transactions (continued)

Key Management Personnel

Key management personnel of the Group are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. The key management personnel comprise members of the Board of Directors, Chief Executive Officer, Chief Capital Markets Officer, Chief Operating Officer, Chief Financial Officer and head of departments.

Compensation to key management personnel is as follows:

	2020	2019
Salaries and short term benefits	1,524	1,434
Post-employment benefits	66	62
Equity compensation benefits	181	255
	1,771	1,751

Attendance fees and remuneration to Board members and other related expenses amount to BD 151 (2019: BD 251).

28. Employee Share Ownership Plan

The Group has established an employee share incentive scheme (the “Scheme”) which is operated through a Trustee. The Trust has been set up by the transfer of shares of the Bank allotted to the employees under the Scheme.

Under the Scheme, employees are entitled to receive shares as part of their bonus in ratios determined by the Board of Directors. The value of the shares is to be determined based on the fair value of the Group’s net assets as at the reporting date. This Scheme is treated as a cash-settled share based payment transaction due to the restrictions imposed under the Scheme whereby the employees have to sell back the shares to the Group on resignation/ retirement based on the vesting conditions mentioned in the Scheme.

The liability under the scheme has different vesting conditions based on the nature of incentive, which is based on the period of service with the Group. The liability vests pro-rata from the date of grant over a period of five years. 50% of the liability can be settled after five years at the option of the employee, while the remaining liability is settled after the employee leaves his employment. The settlement is based on the last net assets value as per the most recent audited annual financial statements of the Group.

On issue of shares under the Scheme, the share capital is increased with a corresponding increase in employee share incentive scheme account classified under equity.

The Group has recognised an employee liability of BD 2,318 (2019: BD 2,171) on the shares granted until date. This liability has been determined on the value of the Group’s net assets as at 31 December 2019 in accordance with the rules of the Scheme. This is considered as level 1 valuation of the fair value hierarchy.

The movement in the shares under the Scheme is as follows:

	2020 **No. of shares issued**	2019 No. of shares issued
As at 1 January	20,272,618	15,987,741
Shares added during the year	-	4,284,877
At 31 December	**20,272,618**	20,272,618

Notes to the consolidated financial statements Bahraini Dinars '000

29. Involvement in unconsolidated structured entities

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	▪ To generate fees from managing assets on behalf of third-party investors. ▪ These vehicles are financed through issuance of units to investors.	▪ Investment in units issued by the fund ▪ Management fee ▪ Performance fee
Employee share incentive scheme trust	▪ To hold the shares in trust under employee share incentive scheme.	▪ None

The table below sets out an analysis of the carrying amounts of interests held by the Group in unconsolidated structured entities. The maximum exposure to loss is the carrying amount of the assets held and outstanding management and performance fee.

	2020	2019
Investments in funds		
Khaleej Equity Fund	1,264	1,195
SICO Kingdom Equity Fund	-	2,539
Bahrain Liquidity Fund Company	1,082	1,150
	2,346	4,884

30. Contingencies, commitments and memorandum accounts

Investment commitment

The Group has committed to invest in SICO Khaleej Equity Fund a minimum of 10% of the net assets value at any time throughout its life. The Group has other investment commitments of BD 1,056 (2019: BD Nil) and margin lending drawdown commitments of BD 1,785 (2019: BD 3,279).

Funds under management (net asset value)	**2020**	2019
SICO Khaleej Equity Fund	**19,002**	17,615
SICO Gulf Equity Fund	**2,512**	2,378
Bahrain Liquidity Fund Company	**37,172**	39,513
SICO Kingdom Equity Fund	**3,417**	8,221
SICO Fixed Income Fund	**4,051**	4,011
Discretionary portfolio management accounts	**811,777**	736,994

The funds under discretionary portfolio management accounts were held in trust or in a fiduciary capacity and are not treated as assets of the Group and, accordingly, have not been included in the consolidated financial statements.

	2020	2019
Assets under custody	**3,010,365**	2,800,744

The Group provides custodianship and nominee services in respect of securities and cash. At 31 December 2020, assets amounting to BD 3,010,365 (2019: BD 2,800,744) were held by the Group as custodian under Brokerage and Custodianship Contracts, out of which securities amounting to BD 568,926 (2019: BD 490,695) were registered in the name of the Bank.

30. Contingencies, commitments and memorandum accounts (continued)

Legal claims

In 2013, the Group's subsidiary "Securities and Investment Company (UAE) LLC" (the "Subsidiary") now renamed as SICO Financial Brokerage, was served notice of legal action brought against it jointly with a third party by one of the Subsidiary's old customers.

The plaintiff claimed damages resulting from a fraudulent transaction carried out by the third party and allegedly one of the old employees of the Subsidiary. The transaction took place prior to the acquisition of the Subsidiary by the Bank when the Subsidiary's name was CI Capital Gulf Financial Brokerage Company LLC.

The sale and purchase agreement includes clauses that exonerate the Bank from any legal action related to any incident prior to the purchase date of 15 September 2011 and places the liability on the old shareholders.

On 30 April 2019, the first instance court issued its judgment and all demands against SICO and its employees have been rejected in the first instance judgement. The first defendant, who is un-related to SICO, is obliged to pay damages to the plaintiff and which has been appealed by the first defendant. The first instance judgement was subsequently confirmed by the court of appeal and the court of cassation so that the case is no longer subject to further ordinary instruments of appeal.

Contingencies

The Group has letters of guarantee in the amount of BD 3,593 (31 December 2019: BD 5,646) in favor of Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) in accordance with the requirements issued by the Securities and Commodities Authority.

31. Net open foreign currency positions

	2020	2019
QAR	(13)	16
US Dollar	43,520	37,250
JOD	52	51
KWD	923	318
SAR	6,132	6,660
GBP	1	1
AED	7,048	8,560
OMR	645	557
EUR	3	4
EGP	(23)	(4)

All GCC currencies except KWD are effectively pegged to US Dollar.

32. Earnings per share

	2020	2019
Profit for the year	**2,959**	6,034
Weighted average number of equity shares (in 000's)	428,487	428,487
Less: Employee share incentive scheme shares	(20,272)	(20,272)
Less: Treasury shares	(38,564)	(38,564)
Weighted average number of shares as at 31 December	369,651	369,651
Earnings per share (in fils)	**8.00**	16.32

The Bank does not have any dilutive instruments.

Notes to the consolidated financial statements — Bahraini Dinars '000

33. Maturity profile of assets and liabilities

The table below shows the maturity profile of the Group's assets and liabilities on the basis of their contractual maturity. Where such contractual maturity is not available, the Group has considered expected realisation / settlement profile for assets and liabilities respectively.

31 December 2020	**Less than 1 year**	**1 to 5 years**	**Above 5 years**	**Total**
Assets				
Cash and bank balances	54,393	-	-	54,393
Treasury bills	1,127	-	-	1,127
Securities bought under repurchase agreements	73,816	-	-	73,816
Investments at fair value through profit or loss	8,441	6,084	7,918	22,443
Investments at fair value through other comprehensive income	-	4,538	5,185	9,723
Investments at amortised cost	-	1,169	8,784	9,953
Investment property	-	-	427	427
Fees receivable	1,153	-	-	1,153
Other assets	169	758	495	1,422
Property, equipment and intangibles	7,323	-	-	7,323
Total assets	**146,422**	**12,549**	**22,809**	**181,780**
Liabilities				
Short-term bank borrowings	7,400	-	-	7,400
Securities sold under repurchase agreements	74,406	-	-	74,406
Customer accounts	34,885	-	-	34,885
Other liabilities	5,426	-	-	5,426
Payable to other unit holders in consolidated funds	1,340	-	-	1,340
Total liabilities	**123,457**	**-**	**-**	**123,457**
Liquidity gap	**22,965**	**12,549**	**22,809**	**58,323**
Cumulative liquidity gap	**22,965**	**35,514**	**58,323**	**58,323**

31 December 2019	Less than 1 year	1 to 5 years	Above 5 years	Total
Assets				
Cash and bank balances	56,555	-	-	56,555
Treasury bills	4,261	-	-	4,261
Securities bought under repurchase agreements	51,106	-	-	51,106
Investments at fair value through profit or loss	3,851	6,033	10,192	20,076
Investments at fair value through other comprehensive income	-	4,169	4,959	9,128
Investments at amortised cost	-	1,169	8,802	9,971
Investment property	-	-	1,915	1,915
Fees receivable	3,523	-	-	3,523
Other assets	8,576	-	-	8,576
Property, equipment and intangibles	280	1,029	362	1,671
Total assets	128,152	12,400	26,230	166,782
Liabilities				
Short-term bank borrowings	3,770	-	-	3,770
Securities sold under repurchase agreements	55,548	-	-	55,548
Customer accounts	41,340	-	-	41,340
Other liabilities	6,138	-	-	6,138
Payable to other unit holders in consolidated funds	622	-	-	622
Total liabilities	107,418	-	-	107,418
Liquidity gap	20,734	12,400	26,230	59,364
Cumulative liquidity gap	20,734	33,134	59,364	59,364

Notes to the consolidated financial statements Bahraini Dinars '000

34. Accounting classification and fair values

(i) The table below sets out the classification of each class of assets and liabilities:

31 December 2020	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Liabilities at fair value**	**At amortized cost**	**Total carrying value**
Cash and bank balances	-	-	-	54,393	54,393
Treasury bills	-	-	-	1,127	1,127
Securities bought under repurchase agreements	-	-	-	73,816	73,816
Investments at fair value through profit or loss	22,443	-	-	-	22,443
Investments at fair value through other comprehensive income	-	9,723	-	-	9,723
Investments at amortised cost	-	-	-	9,953	9,953
Investment property	-	-	-	427	427
Fees receivable	-	-	-	1,153	1,153
Other assets	-	-	-	6,947	6,947
	22,443	**9,723**	**-**	**147,816**	**179,982**
Short-term bank borrowings	-	-	-	7,400	7,400
Securities sold under repurchase agreements	-	-	-	74,406	74,406
Customer accounts	-	-	-	34,885	34,885
Other liabilities	-	-	-	5,426	5,426
Payable to other unit holders in consolidated funds	-	-	1,340	-	1,340
	-	**-**	**1,340**	**122,117**	**123,457**

Notes to the consolidated financial statements Bahraini Dinars '000

34. Accounting classification and fair values (continued)

31 December 2019	Fair value through profit or loss	Fair value through other comprehensive income	Liabilities at fair value	At amortized cost	Total carrying value
Cash and bank balances	-	-	-	56,555	56,555
Treasury bills	-	-	-	4,261	4,261
Securities bought under repurchase agreements	-	-	-	51,106	51,106
Investments at fair value through profit or loss	20,076	-	-	-	20,076
Investments at fair value through other comprehensive income	-	9,128	-	-	9,128
Investments at amortised cost	-	-	-	9,971	9,971
Investment property	-	-	-	1,915	1,915
Fees receivable	-	-	-	3,523	3,523
Other assets	-	-	-	8,340	8,340
	20,076	9,128	-	135,671	164,875
Short-term bank borrowings	-	-	-	3,770	3,770
Securities sold under repurchase agreements	-	-	-	55,548	55,548
Customer accounts	-	-	-	41,340	41,340
Other liabilities	-	-	-	6,138	6,138
Payable to other unit holders in consolidated funds	-	-	622	-	622
	-	-	622	106,796	107,418

The carrying amount of assets and liabilities carried at amortized cost approximates the fair value in view of the short-term nature of these assets and liabilities.

Notes to the consolidated financial statements Bahraini Dinars '000

34. Accounting classification and fair values (continued)

(ii) Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes instruments where the valuation technique includes inputs not based on market observable data.

The table below analyses the fair value of financial assets and liabilities, by the level in the fair value hierarchy into which the fair value measurement is categorised.

As at 31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,753	-	-	4,753
- Debt securities	4,970	-	-	4,970
Fair value through profit or loss:				
- Equities	7,092	-	-	7,092
- Debt securities	8,685	-	-	8,685
- Funds	5,523	-	1,143	6,666
	31,023	**-**	**1,143**	**32,166**

As at 31 December 2019	Level 1	Level 2	Level 3	Total
Assets				
Fair value through other comprehensive income investments:				
- Equities	4,959	-	-	4,959
- Debt securities	4,169	-	-	4,169
Fair value through profit or loss:				
- Equities	2,230	-	-	2,230
- Debt securities	9,564	-	-	9,564
- Funds	7,450	-	832	8,282
	28,372	-	832	29,204

Notes to the consolidated financial statements Bahraini Dinars '000

34. Accounting classification and fair values (continued)

The Group recognises transfers between levels of fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

The following table analyses the movement in Level 3 financial assets during the year:

	2020	2019
At 1 January	832	974
Total gain:		
- in income statement	(101)	(69)
- in other comprehensive income	-	-
Purchases	-	-
Settlements	-	(73)
Transfers into/ (out) of level 3	412	-
At 31 December	**1,143**	832

Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category, which relates to fair value through other comprehensive income financial assets is assessed as not significant to the other comprehensive income and total equity.

(iii) Valuation technique and significant unobservable input

The following table shows the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Type	**Valuation technique**	**Significant unobservable inputs**	**Inter-relationship between significant unobservable inputs and fair value measurement**
Level 2			
Debt instruments	Market comparison technique: The valuation is based on observable market multiples derived from quoted prices of comparable debt instruments.	Not applicable	Not applicable
Funds	Net asset values of the funds obtained from the fund managers	Not applicable	Not applicable
Level 3			
Private equity funds	Net asset values of the funds obtained from the fund managers	Net assets of the funds and the valuations of the underlying investments	The estimated fair value would increase (decrease) if there are any changes in the net assets of the funds based on the performance of the underlying investments.
Equity	Adjusted net asset value	Net assets of the company adjusted for discounts on investment in real estate and venture capital	The estimated fair value would increase (decrease) if there are any changes in the net assets (equity) of the company.

35. Comparatives

Certain comparatives have been regrouped where necessary to conform to the current year's presentation. The regrouping did not affect previously reported profit for the year or total equity of the Group.

36. Subsequent event

On 17 December 2020, SICO signed an agreement with Bank Muscat SAOG ("Bank Muscat") to acquire 72.71% of Muscat Capital Company ("Muscat Capital"), a wholly owned subsidiary of Bank Muscat. Muscat Capital is a closed joint stock company incorporated under the laws of Saudi Arabia and licensed by the Capital Market Authority of Saudi Arabia ("CMA") to conduct securities business of dealing, managing, advising, arranging, underwriting and custody. The acquisition will broaden SICO's regional presence and service offerings in the region's largest market, Saudi Arabia. The completion of the transaction is subject to receiving all necessary approvals from the relevant regulatory authorities in Saudi Arabia and other relevant jurisdictions, and satisfactory completion of closure conditions by both the parties.

The acquisition is expected to be complete in Q1 2021 and as such, Muscat Capital will be consolidated as a subsidiary of SICO from such date.

SICO will settle the acquisition in-kind by transferring 38.6 million shares of SICO to Bank Muscat, which is currently held as treasury shares. This will result in Bank Muscat owing 9% shareholding in SICO on completion of the transaction.

The determination of the fair values of assets acquired and liabilities assumed and the related accounting for the acquisition of Muscat Capital will be determined and reflected in the first interim financial statements post transaction closure. As allowed by accounting standards, the Bank will be able to adjust these amounts within one year of the date of acquisition if new information becomes available about facts and circumstances that existed at the date of acquisition. SICO expects that a valuation for the intangible assets acquired and the quantification of goodwill will be derived through the fair value assessment process during the year ending 31 December 2021.

INTRODUCTION

In accordance with the advice of the Central Bank of Bahrain vide its circular no. OG/259/2020 dated 14 July 2020, and in order to maintain transparency, the Bank discloses herewith additional information pertaining to the financial impact of Novel Coronavirus ("COVID-19") on its financial statements and the results of operations.

This assessment would be carried out on an ongoing basis and necessary supplementary information would be provided as part of the interim and annual financial statements.

The declaration by the World Health Organization of a pandemic due to the spread of COVID-19 around the world suddenly and unexpectedly has caused a major global economic crises and panic in financial markets. Financial Services industry like other industries had to manage and overcome multifaceted challenges in an environment of economic uncertainty and higher risk. The global fight to control the coronavirus spread is not over yet. Nonetheless, many countries have started witnessing reduced number of COVID-19 infections and have started to ease lockdown measures while economic and social activities resuming gradually, the threat of a second wave of infections still looms and the situation remains uncertain.

CURRENT SITUATION

The Bank, in ongoing basis and since the initial days of the crises has been assessing the impact of the crises on all lines of business in terms of revenues, liquidity and overall exposures. While the impact on the income stream is being reviewed on continuous basis due to the markets turmoil, the Management are also cognizant of the need to maintain business activities while ensuring staff safety and business continuity. The Management have communicated to the clients early in the crises all measures that are implemented giving them the additional comfort that the Bank is fully prepared and their business with SICO is safeguarded from all aspects. In the meantime, the Management have assessed that SICO does not face any imminent liquidity crisis and also, the Bank has recovered a good portion of the loss in revenue that was incurred in the first half of the year.

The Government of Bahrain has announced various support measures to assist the corporates in these unprecedented situations. The Central Bank of Bahrain has also provided a number of support measures in terms of the reporting requirement timelines and also easing certain threshold requirements.

The Bank is also pleased to disclose that as part of the Bank's Corporate Social Responsibility measures, an amount of BD 300 thousand has been donated to the "Feena Khair" national campaign which would be used by the Government to support those who are most affected due to the pandemic.

SICO has taken a number of steps in the business continuity planning and implementation process keeping in mind the overall safety and well-being of our staff members while ensuring no operational disturbances in running the business.

Below is a summary of the financial impact as of December 2020:

Overall, the Bank's financial performance for the year 2020 has got impacted due to the COVID-19 related economic shock and the extreme volatility experienced in the oil prices and its resultant impact on the market valuation of securities.

The Bank achieved a net profit of BD 3.0 million for the year ended 31 December 2020 as compared to the BD 6.0 million that was achieved for the year ended 2019.

Fee based income experienced a decline of about 58% when compared to 2019, mainly due to the following reasons:

- Reduction in the portfolio valuations due to the market volatilities has resulted in lower management fees income in 2020 as compared to 2019
- Inability to book any significant performance fees income in 2020 as compared to 2019
- The strain caused by COVID-19 has resulted in the postponement of certain of the corporate events in the region. This has an impact on achieving the target revenue stream in the Investment banking mandates.
- The existing volatile market conditions are not conducive for the Market Making line of business resulting in deferment of certain of the new mandates and the resultant reduction in the fee income.

Brokerage and other income recorded an increase of about 28% in 2020 as compared to 2019. The volatile market situation resulted in increased trading activities which helped boost brokerage income. In the short term, this volatility has created good trading opportunity for clients in both the equities and fixed income space.

Interest income reflected a growth of 3% from previous year levels. This has been achieved due to the efficient management of the liquidity position as well stable Reverse repo based business activities.

The **Proprietary book investment** portfolio took a significant hit due to the market conditions that prevailed during the first three to four months of 2020. The drop in market valuations were due to both the COVID-19 pandemic as well as the significant drop in the oil prices. A number of measures that includes revising asset allocations, implementing hedging strategies, have been put in place. The later part of 2020 witnessed some good recovery. As of 31 December 2020, there is a net investment gain amounting to BD 2.2 million in comparison to net income of BD 4.3 million booked in 2019, representing a decrease of about 52%.

The impact of Covid-19 is summarized below:

Income component	2020 BD ‘000	2019 BD ‘000
Net investment income	2,238	4,315
Net fee income	3,619	6,271

Others:

- The Bank continues to meet the regulatory requirement of CAR, LCR and NSFR.
- A detailed analysis of the ECL provisioning requirements has been carried out and considering the nature of the exposures, the stressed economic situation has not resulted in the need for any increase to the existing ECL provisions.
- The Bank decided to postpone certain internal technology projects mainly to avoid / restrict the movement of external vendors and consultants. This has resulted in the reduction of certain amounts of capital expenditure and the related depreciation.
- Strict cost control measures are in place; however due attention is given and necessary expenditure is incurred to ensure safety and well-being of staff personnel
- The overall Assets Under Management (AUM) as of December 2020 stood at USD 2.3 billion which is about 9% higher than the USD 2.1 billion as of December 2019. In the first half of 2020, there was a decrease of about 20% in the AUM due to reductions experienced in the overall portfolio valuations as well as certain outflows that were effected by the clients to meet their liquidity needs. However, with substantial and successful fund raising efforts, the AUM has increased year on year

CLOSING NOTE

The Management believes that ample measures have been taken by the Bank to handle the challenges of this uncertain situation. At this point, the priority is to ensure safety of our employees, clients, partners and all other stakeholders. The Bank will continue to maintain a resilient financial position and an attentive approach to dealing with all the clients.